

CONSOLIDATED FINANCIAL STATEMENTS
AND REPORTS ON FEDERAL AWARD PROGRAMS

Texas Biomedical Research Institute
Years Ended December 31, 2015 and 2014
With Reports of Independent Auditors

Ernst & Young LLP



Building a better
working world

Texas Biomedical Research Institute
Consolidated Financial Statements
and Reports on Federal Award Programs
Years Ended December 31, 2015 and 2014

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Report of Independent Auditors

The Management and Trustees
Texas Biomedical Research Institute

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Texas Biomedical Research Institute, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of unrestricted revenues, expenses, and other changes in unrestricted net assets; changes in net assets; and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Texas Biomedical Research Institute as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated May 23, 2016, on our consideration of Texas Biomedical Research Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Texas Biomedical Research Institute's internal control over financial reporting and compliance.

Ernst + Young LLP

May 23, 2016

Texas Biomedical Research Institute

Consolidated Balance Sheets

	December 31	
	2015	2014
Assets		
Cash and cash equivalents	\$ 5,075,117	\$ 4,080,325
Receivables:		
Accounts receivable	27,582	103,463
Contracts receivable from research projects	4,593,349	3,207,619
Amounts due on authorized grants in aid:		
National Institutes of Health	1,287,178	1,954,764
Other	453,508	756,642
Note receivable from Evestra, Inc.	–	50,000
Prepaid expenses and supplies	340,853	572,913
Contributions receivable (Note 5)	1,019,090	2,664,425
Assets limited as to use:		
Cash and cash equivalents	2,001,328	7,106,185
Investments (Note 2)	108,649,480	115,847,721
Investment in Evestra, Inc.	2,821,861	2,821,861
Funds held in trust by others (Note 3)	2,127,507	2,229,297
The Argyle land, buildings, and equipment (net of accumulated depreciation of \$3,713,840 and \$3,639,832 in 2015 and 2014, respectively) (Note 6)	4,941,907	3,716,147
Property, plant, and equipment (PPE):		
Land	359,959	359,959
Buildings and improvements (Note 1)	106,499,550	108,774,782
Fixtures and equipment (Note 1)	36,530,621	32,235,138
PPE in service	143,390,130	141,369,879
Less allowances for depreciation	81,146,081	75,292,800
PPE in service, net of accumulated depreciation	62,244,049	66,077,079
Construction-in-progress	807,289	669,409
Net property, plant, and equipment	63,051,338	66,746,488
Total assets	<u>\$ 196,390,098</u>	<u>\$ 211,857,850</u>

	December 31	
	2015	2014
Liabilities and net assets		
Accounts payable and accrued expenses:		
Trade accounts payable	\$ 3,436,925	\$ 3,722,526
Accrued wages, vacation, and other liabilities	3,743,033	3,970,381
Postretirement benefits	52,074	60,409
Unearned contract revenue from research projects	1,201,401	693,177
Amounts unearned on grants in aid:		
Advance collections	715,553	1,967,485
Total current liabilities	9,148,986	10,413,978
Long-term debt (<i>Note 8</i>)	2,698,354	6,345,991
Total liabilities	11,847,340	16,759,969
Net assets:		
Unrestricted net assets	127,005,268	136,587,251
Temporarily restricted net assets	23,689,297	24,560,647
Permanently restricted net assets	33,848,193	33,949,983
Total net assets	184,542,758	195,097,881

Total liabilities and net assets	\$ 196,390,098	\$ 211,857,850
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See accompanying notes.

Texas Biomedical Research Institute

Consolidated Statements of Unrestricted Revenues, Expenses,
and Other Changes in Unrestricted Net Assets

	December 31	
	2015	2014
Unrestricted revenues, gains, and other support:		
Grants in aid	\$ 24,373,240	\$ 34,817,896
Contracts	16,382,912	11,450,614
Contributions	3,003,130	2,520,519
Investment income	1,710,647	1,985,851
Net unrealized/realized (loss) gain on investments	(4,002,545)	1,095,669
Acquisition of assets from grants	111,731	1,318,846
Loss on disposition of assets, net	(108,142)	(323,512)
Rental income	83,454	89,461
Internal service revenue	45,924	25,170
Oil and gas royalties	1,459,493	2,926,233
Other	274,864	5,213
	43,334,708	55,911,960
Unrestricted revenues, gains, and other support		
Net assets released from program restrictions	4,120,089	11,408,604
Total unrestricted revenues, gains, and other support	47,454,797	67,320,564
Expenses:		
Direct project costs – grants	15,106,142	22,034,594
Direct project costs – contracts	8,245,153	5,284,234
Internal research	4,785,405	3,866,799
Support services	6,088,909	7,423,513
Research department administration	2,791,880	2,726,747
General and administrative	20,019,291	21,135,841
Total expenses	57,036,780	62,471,728
Net (decrease) increase in unrestricted net assets attributable to Texas Biomedical Research Institute	\$ (9,581,983)	\$ 4,848,836

See accompanying notes.

Texas Biomedical Research Institute

Consolidated Statement of Changes in Net Assets

Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Unrestricted revenues, gains, and other support	\$ 43,334,708	\$ -	\$ -	\$ 43,334,708
Restricted revenues, gains, and other support:				
Contributions	-	4,169,059	-	4,169,059
Investment income	-	314,193	-	314,193
Net unrealized/realized loss on investments	-	(1,234,513)	-	(1,234,513)
Loss on funds held in trust by others	-	-	(101,790)	(101,790)
Net assets released from program restrictions	4,120,089	(4,120,089)	-	-
Total revenues, gains, and other support	47,454,797	(871,350)	(101,790)	46,481,657
Expenses:				
Unrestricted expenses	57,036,780	-	-	57,036,780
Decrease in net assets	(9,581,983)	(871,350)	(101,790)	(10,555,123)
Net assets at the beginning of year	136,587,251	24,560,647	33,949,983	195,097,881
Net assets at the end of year	<u>\$ 127,005,268</u>	<u>\$ 23,689,297</u>	<u>\$ 33,848,193</u>	<u>\$ 184,542,758</u>

See accompanying notes.

Texas Biomedical Research Institute

Consolidated Statement of Changes in Net Assets

Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Unrestricted revenues, gains, and other support	\$ 55,911,960	\$ -	\$ -	\$ 55,911,960
Restricted revenues, gains, and other support:				
Contributions	-	7,284,431	36,958	7,321,389
Investment income	-	385,649	-	385,649
Net unrealized/realized gain on investments	-	1,124,995	-	1,124,995
Loss on funds held in trust by others	-	-	(481,959)	(481,959)
Net assets released from program restrictions	11,408,604	(11,408,604)	-	-
Total revenues, gains, and other support	67,320,564	(2,613,529)	(445,001)	64,262,034
Expenses:				
Unrestricted expenses	62,471,728	-	-	62,471,728
Increase (decrease) in net assets	4,848,836	(2,613,529)	(445,001)	1,790,306
Net assets at the beginning of year	131,738,415	27,174,176	34,394,984	193,307,575
Net assets at the end of year	<u>\$ 136,587,251</u>	<u>\$ 24,560,647</u>	<u>\$ 33,949,983</u>	<u>\$ 195,097,881</u>

See accompanying notes.

Texas Biomedical Research Institute

Consolidated Statements of Cash Flows

	December 31	
	2015	2014
Operating activities		
(Decrease) increase in net assets	\$ (10,555,123)	\$ 1,790,306
Adjustments to reconcile (decrease) increase in net assets to net cash used in by operating activities:		
Depreciation	7,156,814	6,767,626
Loss on sale of assets, net	108,142	323,512
Loss on funds held in trust by others	101,790	481,959
Net investment loss (income)	2,988,167	(4,820,636)
Restricted contributions revenue	(4,169,059)	(7,284,431)
Changes in operating assets and liabilities:		
Accounts receivable	125,881	(12,031)
Contracts receivable	(1,385,730)	(1,298,453)
Grants in aid	970,720	(1,184,136)
Prepaid expenses and supplies	232,060	(404,503)
Accounts payable and accrued expenses	(521,285)	(580,336)
Unearned contract revenue	746,268	(2,011,407)
Advance collections	57,866	265,277
Net cash used in operating activities	(4,143,487)	(7,967,253)
Investing activities		
Purchases of plant and equipment	(1,519,518)	(8,140,062)
Sale of plant and equipment	281,719	13,518
Purchases of investments	(10,577,861)	(20,946,802)
Sale of investments	14,787,184	21,396,401
Net cash provided by (used in) investing activities	2,971,524	(7,676,945)
Financing activities		
Proceeds from notes payable	810,800	4,300,000
Payments on notes payable	(4,458,439)	-
Proceeds from restricted contributions received	5,814,394	8,937,908
Net cash provided by financing activities	2,166,755	13,237,908
Increase (decrease) in cash and cash equivalents	994,792	(2,406,290)
Cash and cash equivalents at beginning of year	4,080,325	6,486,615
Cash and cash equivalents at end of year	\$ 5,075,117	\$ 4,080,325
Supplemental disclosure		
Interest paid	\$ 61,003	\$ 125,203

See accompanying notes.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements

December 31, 2015

1. Significant Accounting Policies

Nature of Operations

The creation of Texas Biomedical Research Institute (Texas Biomed) was by trust indenture dated December 16, 1941, and restated November 1, 1993, appointing trustees and specifying the scientific, educational, and charitable purposes of Texas Biomed. Texas Biomed conducts scientific research and educational programs to improve the health of the global community.

Principles of Consolidation

For the year ended December 31, 2015 and 2014, the accompanying consolidated financial statements include the accounts of Texas Biomedical Research Institute and the Tom Slick Memorial Trust for Texas Biomedical Research Institute, which is controlled by the Board of Trustees of Texas Biomed.

The Tom Slick Memorial Trust is held in the Texas Biomed endowment fund. Each month, in accordance with Texas Biomed's board-adopted spending policy, the Tom Slick Memorial Trust contributes 4% of its earnings to Texas Biomed to be used for operations. As of December 31, 2015 and 2014, all intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements of Texas Biomed are presented on the accrual basis, in accordance with U.S. generally accepted accounting principles (GAAP). Texas Biomed is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Resources are reported in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets have been grouped in the following three classes:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations and may be designated for specific purposes by action of the Board of Trustees

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

- *Temporarily restricted net assets* – Net assets whose use by Texas Biomed is subject to donor-imposed stipulations that can be fulfilled by actions of Texas Biomed pursuant to those stipulations or that expire by the passage of time
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that neither never expire by the passage of time nor can be fulfilled or otherwise removed by Texas Biomed

Reclassifications

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation. Certain buildings and improvements have been reclassified to fixtures and equipment on the consolidated balance sheets. On the consolidated statement of cash flows: (1) oil and gas income has been reclassified to net cash provided from operating activities from investing activities, (2) changes in restricted operating contributions receivable have been reclassified from operating activities to financing activities, and (3) capital campaign contributions received have been reclassified to financing activities from operating activities.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include non-interest-bearing and interest-bearing demand deposits, as well as a money market sweep account, which have maturities of less than 90 days.

Restricted cash includes cash and cash equivalents that are separately maintained by management based on temporary donor restrictions or other needs.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Assets Limited as to Use and Investments

Net appreciation on endowment funds whose income is unrestricted as to use should be reported as unrestricted net assets unless such net appreciation has been restricted by the donor or by law. In those cases where a donor has placed specific restrictions on the use of endowment income, any related net appreciation is also subject to the same restriction and is reported as a part of temporarily restricted net assets until such time as the restriction has been met.

Realized gains and losses on investments are recognized in the period in which they occur. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in unrestricted net assets unless the income or loss is restricted by donor or law. Market appreciation or decreases on permanently restricted gifts are classified on the accompanying consolidated financial statements as part of unrestricted or temporarily restricted net assets, as stipulated by donor.

The investment objectives for Texas Biomed's endowment funds are to preserve the principal value of the endowment funds in both absolute and real terms, and to maximize over the long term the total rate of return (cash income plus market appreciation) earned by the endowment funds, without assuming an unreasonable degree of risk. Accordingly, the Board of Trustees has adopted a spending formula for determining the maximum that can be expended annually, which is 4% of the trailing 12-quarter rolling average value of the endowment funds computed annually in the years ended December 31, 2015 and 2014.

Assets limited as to use primarily include assets designated for capital expenditures and research, scientific recruitment, and endowment funds by the donor or set aside by the Board of Trustees.

Endowment funds are invested primarily in U.S. equities, global equities, U.S. fixed-income securities, global fixed-income securities, alternative investments, emerging markets equities, cash, and cash equivalents. The vehicles for these investments include purchases of mutual funds and investments in limited partnerships and trusts. The basis for the investments is the aggregate fair market value. A portion of the endowment funds are invested in 13 limited partnerships and 2 trusts. These amounts are recorded at fair value, based on Texas Biomed's applicable ownership percentage in net assets of the limited partnerships and trusts. The investment income or loss, including realized gains and losses, unrealized gains and losses, interest income, and dividend income, from Texas Biomed's investment in these limited partnerships and trusts is included within unrestricted and temporarily restricted investment income and net realized/unrealized gains, in accordance with donor restrictions.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, and that amount is then treated as the basis of the asset. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported on the statements of changes in net assets as net assets released from program restrictions.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Texas Biomed has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Texas Biomed in perpetuity. Income from the permanently restricted net assets that can be used for current operations, subject to donor restrictions on use, is reflected as an increase to unrestricted net assets. This accounting policy was also used for the Tom Slick Memorial Trust consistent with the terms of the documents establishing that trust, with income from the permanently restricted corpus being recorded as unrestricted income.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost or at estimated fair value on dates contributed. Texas Biomed provides for depreciation and amortization of property, plant, and equipment at amounts calculated to amortize the cost of the assets over their estimated useful lives, using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	30 years
Fixtures and equipment	5 years

The general policy of Texas Biomed is to relieve property accounts and related allowances for depreciation and amortization for properties retired or otherwise disposed of at amounts included therein for such properties, and any gain or loss resulting therefrom is included on the statements of unrestricted revenues, expenses, and other changes in unrestricted net assets.

Expenditures for maintenance and repairs are charged to costs or expenses; renewals and betterments are capitalized.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Property, plant, and equipment acquired by federal funds are made available for use in other similar federally sponsored projects or programs as workload permits. The property, plant, and equipment acquired with federal funds are subject to use and disposition conditions, including possible repayments to the federal government if assets are disposed of. The amount of total property, plant, and equipment acquired with federal funds, less accumulated depreciation, is \$11,932,890 and \$13,501,304 as of December 31, 2015 and 2014, respectively.

In early 2012, Texas Biomed began construction on a new 70,000-square-foot building that houses scientific laboratories, scientific and administrative offices, and space for supporting departments. The building was occupied in February 2014. Total cost of the building is approximately \$27,725,000. Donor pledges, payable over five to seven years, have been received to cover the cost of construction. A \$15,000,000 revolving line of credit was established to borrow the funds required to build the facility now, to be repaid with the future pledge payments. As of December 31, 2015 and 2014, \$1,408,063 and \$5,800,000, respectively has been drawn on the revolving line of credit (see Note 8).

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Retirement Plan

Texas Biomed's retirement plan is available to all active full-time employees and those who work a minimum of 1,000 hours, immediately upon employment. Contributions to the plan consist of employer payments ranging from 7% to 9% of such employee's base salary up to the maximum amount allowed under Section 401(a)(17) of the Internal Revenue Code (Code) based on years of service. Employees are fully vested after the completion of three years of service. The plan is carried with the Teachers Insurance and Annuity Association and College Retirement Equities Fund and is a defined contribution (money-purchase) plan. Payments to the plan were allocated to the various grants, contracts, and departments of Texas Biomed in the amount of \$1,821,768 and \$1,928,407 in 2015 and 2014, respectively.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Texas Biomed adopted the Supplemental Executive Retirement Plan, a non-qualified defined contribution plan, effective as of January 1, 1999. The plan provides non-qualified deferred compensation benefits for Texas Biomed's president, chief financial officer, and chief scientific officer. The Board of Trustees may designate, from time to time, other selected management or highly compensated employees of Texas Biomed as eligible to participate in the plan. Contributions to the plan consist of employer payments ranging from 7% to 9% of employee compensation over the maximum amount allowed under Section 401(a)(17) of the Code. Employer contributions to the plan of \$0 and \$22,411 were made in 2015 and 2014, respectively.

Income Taxes

Texas Biomed is exempt from federal income taxes under Section 501(a) of the Code, as an organization described under Section 501(c)(3) of the Code. This status was reaffirmed in the process of converting to a corporation. This exemption does not apply to unrelated business income, as defined by Section 512(a)(1) of the Code, which is subject to federal income tax. Texas Biomed has no internal tax liability results from such unrelated business income in 2015 or 2014. U.S. generally accepted accounting principles require management to evaluate uncertain tax positions taken by Texas Biomed. The financial statement effects of a tax position are recognized when the position is more likely than not, based on its technical merits, to be sustained upon examination by the IRS. Management has analyzed the tax positions taken by Texas Biomed and has concluded that, as of December 31, 2015, there are no uncertain positions taken or expected to be taken. Texas Biomed has recognized no interest or penalties related to uncertain tax positions. Texas Biomed is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Texas Biomed believes it is no longer subject to income tax examinations for years prior to 2012.

Investment Income

Texas Biomed reports investment income net of applicable management fees. For the years ended December 31, 2015 and 2014, management fees were \$675,329 and \$610,800, respectively.

Subsequent Events

Texas Biomed has evaluated subsequent events through May 23, 2016, the date the accompanying consolidated financial statements were available to be issued.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

2. Investments

Investments in equity and debt securities with determinable fair value are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for further discussion. The composition of these securities is set forth as follows:

	December 31	
	2015	2014
Mutual funds	\$ 46,303,310	\$ 52,507,729
Cash and cash equivalents	629,905	1,773,616
Limited partnerships and trusts	61,716,264	61,566,376
	\$ 108,649,480	\$ 115,847,721

Investments traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price.

Limited partnerships and trusts are valued at the net asset values of units held at year-end. Purchases and sales of securities are recorded as of the trade date at cost. Realized gains and losses on sales of securities are determined on the basis of average costs. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

Texas Biomed holds an equity interest in limited partnerships and trusts that are operated by external investment managers. Texas Biomed measures the fair value of the limited partnerships and trusts at the net asset values of units held at year-end. The holdings in the limited partnerships and trusts are primarily composed of publicly traded securities with readily determinable market values. The risks associated with these investments are numerous and include non-regulation risk, managerial risk, minimal liquidity, and limited transparency.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

2. Investments (continued)

Investment income earned by Texas Biomed and its allocation among net asset classifications are as follows:

	December 31	
	2015	2014
Dividends and interest earned on investments	\$ 1,453,488	\$ 1,613,815
Net realized gain on investments reported at fair value	1,343,111	1,647,322
Net unrealized (loss) gain on investments reported at fair value	(5,333,489)	1,941,827
Less investment expenses netted against income	(675,329)	(610,800)
Total investment income	\$ (3,212,219)	\$ 4,592,164
Net asset classification of investment income:		
Unrestricted	\$ (2,291,899)	\$ 3,081,520
Temporarily restricted	(920,320)	1,510,644
Total investment income	\$ (3,212,219)	\$ 4,592,164

Investments in oil and gas mineral interests are considered other investments and the investments are measured at the lower of cost or fair value. As of December 31, 2015 and 2014, Texas Biomed's investments in oil and gas mineral interests are \$0.

In 2008, Texas Biomed helped create a new for-profit pharmaceutical development corporation named Evestra, Inc. (Evestra). Texas Biomed transferred to Evestra certain equipment, supplies, intellectual property, and a National Institutes of Health contract for steroid manufacturing, and the former staff of Texas Biomed's Organic Chemistry Department became employees of Evestra. As of December 31, 2015 and 2014, Texas Biomed owns 45% of Evestra's common stock and has two voting representatives on Evestra's board. Texas Biomed considers its equity interest in Evestra to be other investments and measures this investment at lower of cost or fair value. As of December 31, 2015 and 2014, Texas Biomed's investment in Evestra is \$2,821,861.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

3. Funds Held in Trust by Others

Texas Biomed’s interest in funds held in trusts by others is included in net assets for the years ended December 31, 2015 and 2014. These funds are neither in the possession nor under the control of Texas Biomed. Texas Biomed is an income beneficiary of perpetual trusts held by third parties where the trustee has no discretion regarding the income beneficiaries’ participation in the trust. Texas Biomed’s proportionate share of the fair value of the trust, which approximates the net present value of the estimated future cash flows receivable by Texas Biomed, is reported as an asset and as permanently restricted contribution revenue at the formation of the trust. Annual income distributions from the trusts are recognized as investment income in the appropriate net asset class according to the restrictions of the trust. Changes in Texas Biomed’s proportionate share of the fair value of the trust is reported as gains or losses on funds held in trust by others in the permanently restricted net asset class.

	December 31	
	2015	2014
Ruth Chapman Cowles and Andrew G. Cowles Memorial Trust:		
Texas Biomed has a 10% interest in the income generated from this perpetual trust. The income from the trust is to be used primarily for postdoctoral fellowships	\$ 2,127,507	\$ 2,229,297
Unrealized loss in Texas Biomed’s 10% interest	(101,790)	(481,959)

4. Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, establishes a framework for measuring fair value. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value, which are either observable or unobservable. Observable inputs reflect assumptions that market participants would use in pricing an asset or liability based on market data obtained from independent sources, while unobservable inputs reflect a reporting entity’s pricing based upon management’s own market assumptions. The fair value hierarchy under ASC 820 consists of the following three levels:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities that are accessible to the reporting entity at the measurement date.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements (continued)

- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
 - Quoted prices for similar assets and liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in markets that are not active
 - Observable inputs other than quoted prices that are used in the valuation of the asset or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
 - Inputs that are derived principally from or corroborated by observable market data
- Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management’s own judgment about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk. A financial instrument’s categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following tables present the financial instruments carried at fair value as of December 31, 2015 and 2014, by caption on the consolidated balance sheets and by level in the ASC 820 fair value hierarchy. None of Texas Biomed’s holdings are concentrated in one specific industry or investment type.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements (continued)

	Fair Value Measurement at December 31, 2015, Using:			
	December 31, 2015	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:				
Interest-bearing cash	\$ 629,905	\$ 629,905	\$ -	\$ -
Mutual funds:				
U.S. equities	12,820,184	12,820,184	-	-
International equities	5,335,230	5,335,230	-	-
U.S. fixed-income securities	8,133,274	8,133,274	-	-
Emerging markets	16,532,400	16,532,400	-	-
	<u>43,450,993</u>	<u>\$ 43,450,993</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at net asset value:				
Limited partnerships and trusts:				
U.S. equities	16,861,159			
International equities	20,100,324			
Global fixed-income securities	2,135,025			
Hedge funds	26,101,979			
Total investments at fair value	<u>\$ 108,649,480</u>			
Funds held in trust by others	\$ 2,127,507	\$ -	\$ -	\$ 2,127,507

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements (continued)

	Fair Value Measurement at December 31, 2014, Using:			
	December 31, 2014	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:				
Interest-bearing cash	\$ 1,773,616	\$ 1,773,616	\$ -	\$ -
Mutual funds:				
U.S. equities	12,729,987	12,729,987	-	-
International equities	7,395,145	7,395,145	-	-
U.S. fixed-income securities	8,675,690	8,675,690	-	-
Emerging markets	19,798,525	19,798,525	-	-
	<u>50,372,963</u>	<u>\$ 50,372,963</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at net asset value:				
Limited partnerships and trusts:				
U.S. equities	16,079,536			
International equities	21,709,770			
Global fixed-income securities	4,606,428			
Hedge funds	23,079,024			
Total investments at fair value	<u>\$ 115,847,721</u>			
Funds held in trust by others	<u>\$ 2,229,297</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,229,297</u>

The valuation methodologies used for instruments measured at fair value as presented in the table above are as follows:

Investments that are valued at quoted prices available in an active market and interest-bearing cash are classified within Level 1 of the valuation hierarchy.

The fair values of investments in limited partnerships and trusts are measured at the entities' net asset value per share. The table on the following page includes additional disclosures required by ASC 820 for the fair value measurements of investments in certain entities that calculate fair value based on net asset value per share.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements (continued)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
December 31, 2015				
U.S. equities ^(a)	\$ 16,861,159	\$ –	Quarterly	30 days
International equities ^(b)	20,100,324	–	Monthly	10 days
Global fixed-income securities ^(c)	2,135,025	–	Daily–Monthly	10–15 days
Hedge funds ^(d)	26,101,979	–	Monthly–Annually	10–90 days
	<u>\$ 65,198,487</u>	<u>\$ –</u>		
December 31, 2014				
U.S. equities ^(a)	\$ 16,079,536	\$ –	Quarterly	30 days
International equities ^(b)	21,709,770	–	Monthly	10 days
Global fixed-income securities ^(c)	4,606,428	–	Daily–Monthly	10–15 days
Hedge funds ^(d)	23,079,024	–	Monthly–Annually	15–90 days
	<u>\$ 65,474,758</u>	<u>\$ –</u>		

^(a) U.S. equities include investments in a limited partnership that invests in publicly traded securities in the United States. Management of the partnership has the ability to manage the investment portfolio.

^(b) International equities include investments in a trust and a limited partnership that invest in international securities outside the United States. Management of the trust and partnership manage their respective investment portfolios.

^(c) Global fixed-income securities include investments in a trust and limited partnership that invest in fixed-income securities such as corporate and government bonds. Management of the trust and partnership manage their respective investment portfolios.

^(d) Hedge funds include investments in limited partnerships that invest in securities and financial instruments of issuers. Management of the partnerships practice a conservative but flexible form of event-driven investing that favors safer, more predictable transactions while accepting lower expected returns.

Funds held in trust of others were classified as Level 3 because Texas Biomed must rely on the trustee's measurement of fair value of the investments held by the trust. Texas Biomed takes necessary steps to obtain a comfort level with valuation procedures used by the trustee.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements (continued)

Level 3 Reconciliation

The changes in assets measured at fair value for which Texas Biomed has used Level 3 inputs to determine fair value are as follows:

	<u>Funds Held in Trust by Others</u>
Balance, December 31, 2013	\$ 2,711,256
Unrealized loss included in the consolidated statement of changes in net assets	<u>(481,959)</u>
Balance, December 31, 2014	2,229,297
Unrealized loss included in the consolidated statement of changes in net assets	<u>(101,790)</u>
Balance, December 31, 2015	<u><u>\$ 2,127,507</u></u>

5. Contributions Receivable

As of December 31, 2015 and 2014, Texas Biomed has received unconditional promises totaling \$1,019,090 and \$2,710,931, respectively. Unconditional promises are unrestricted or temporarily restricted by donors for capital construction, research, or faculty recruitment, and permanently restricted as endowment funds. The amounts are recorded at the present value of estimated future cash flows. Contributions receivable are due as follows:

	December 31	
	2015	2014
Less than one year	\$ 634,896	\$ 1,812,226
One to five years	430,700	898,705
	1,065,596	2,710,931
Less amount to reduce to present value	46,506	46,506
Total contributions receivable	<u><u>\$ 1,019,090</u></u>	<u><u>\$ 2,664,425</u></u>

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

6. The Argyle Land, Buildings, and Equipment

Land, buildings, and equipment not used in the research operations of Texas Biomed are identified separately and valued at cost. Currently, this is limited to property leased to The Argyle Club (The Argyle).

The Argyle is a nonprofit organization operated as a social welfare organization. Membership in The Argyle requires initial and annual contributions to Texas Biomed. Texas Biomed leases a building, its contents, surrounding land, and a parking lot to The Argyle for a monthly rental of \$6,000.

7. Endowment Funds and Funds Functioning as Endowments

Texas Biomed holds donor-restricted and Board-designated endowment funds established primarily to fund specified activities for and within Texas Biomed and the research community as a whole. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Uniform Prudent Management of Institutional Funds Act provides statutory guidelines for management, investment, and expenditure of endowment funds held by charitable organizations, which apply in the absence of explicit donor stipulations. The intent of Texas Biomed is to preserve the historic dollar value of original permanently restricted gifts.

Texas Biomed classifies the historic value of donor-restricted gifts to be held in perpetuity as permanently restricted net assets. The remaining accumulated earnings of the donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

7. Endowment Funds and Funds Functioning as Endowments (continued)

Activity of endowments and funds functioning as endowments for the years ended December 31, 2015 and 2014, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at				
December 31, 2013	\$ 67,320,986	\$ 27,174,176	\$ 34,394,985	\$ 128,890,147
Contributions	976,713	7,284,431	36,958	8,298,102
Investment income	870,798	385,649	–	1,256,447
Net unrealized/realized gain on investments	2,205,285	1,124,995	–	3,330,280
Loss on funds held in trust by others	–	–	(481,960)	(481,960)
Net assets released from program restrictions	–	(11,408,604)	–	(11,408,604)
Appropriation of endowment assets for expenditure	(3,466,492)	–	–	(3,466,492)
Endowment net assets at				
December 31, 2014	67,907,290	24,560,647	33,949,983	126,417,920
Contributions	961,149	4,169,059	–	5,130,208
Investment income	765,563	314,193	–	1,079,756
Net unrealized/realized loss on investments	(3,062,407)	(1,234,513)	–	(4,296,920)
Loss on funds held in trust by others	–	–	(101,790)	(101,790)
Net assets released from program restrictions	–	(4,120,089)	–	(4,120,089)
Appropriation of endowment assets for expenditure	(4,446,661)	–	–	(4,446,661)
Endowment net assets at				
December 31, 2015	<u>\$ 62,124,934</u>	<u>\$ 23,689,297</u>	<u>\$ 33,848,193</u>	<u>\$ 119,662,424</u>

Texas Biomed has adopted investment and spending policies for endowment assets reflecting a disciplined, consistent management philosophy that accommodates reasonable and probable events. Preservation of capital and return on investment are of primary importance. The primary investment objective is to preserve financial assets generated through donor gifts, so that the proceeds may be distributed for the purposes intended by the donors and to the benefit of Texas Biomed, at a level of risk deemed acceptable by the Board of Trustees.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

7. Endowment Funds and Funds Functioning as Endowments (continued)

To satisfy its long-term rate-of-return objectives, Texas Biomed relies on an investment policy outlined by its Investment Committee, which includes a desired mix of international and U.S. bonds, stocks, alternative investments, and cash and cash equivalents. Texas Biomed, at the direction of its Investment Committee, rebalances the portfolio periodically to maintain the desired distribution of assets within each asset class.

Texas Biomed has adopted spending policies allowing endowment funds to be utilized only in accordance with the purposes established by the donor or Board of Trustees designation.

8. Long-Term Debt

On October 12, 2012, Texas Biomed entered into a declining revolving promissory note (the note) with a financial institution. The note is a declining revolving line of credit in which the principle may not exceed the following:

1. Fifteen million and no/100 dollars (\$15,000,000) for the period from October 12, 2012, until and including October 11, 2014.
2. Twelve million and no/100 dollars (\$12,000,000) for the period from October 12, 2014, until and including October 11, 2015.
3. Nine million and no/100 dollars (\$9,000,000) for the period from October 12, 2015, until and including October 11, 2016.
4. Five million and no/100 dollars (\$5,000,000) for the period from October 12, 2016, until and including October 12, 2017.

The note bears interest at 2.4% and has a maturity date of October 12, 2017. The unpaid principle balance was \$1,408,063 and \$5,800,000 at December 31, 2015 and 2014, respectively. As of December 31, 2015, all interest due on the loan was paid by Texas Biomed.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

Line of Credit

Texas Biomed has a \$2,000,000 one-year line of credit with a financial institution available through July 20, 2016. The line of credit is extended each year. The amount drawn was \$1,290,291 and \$545,991 as of December 31, 2015 and 2014, respectively. The interest rate is variable based on changes in the London Interbank Offered Rate for one (1) month as quoted in the most recently published issue of The Wall Street Journal. As of December 31, 2015, all interest due on the line of credit was paid by Texas Biomed.

9. Contingencies

Texas Biomed is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Texas Biomed's consolidated financial position.

Reports on Federal Award Programs



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Management and Trustees
Texas Biomedical Research Institute

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Texas Biomedical Research Institute, which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of unrestricted revenues, expenses, and other changes in unrestricted net assets; changes in net assets; and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Texas Biomedical Research Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Texas Biomedical Research Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Texas Biomedical Research Institute's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Texas Biomedical Research Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

May 23, 2016



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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Management and Trustees
Texas Biomedical Research Institute

Report on Compliance for the Major Federal Program

We have audited Texas Biomedical Research Institute's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on Texas Biomedical Research Institute's major federal program for the year ended December 31, 2015. Texas Biomedical Research Institute's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Texas Biomedical Research Institute's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Texas Biomedical Research Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Texas Biomedical Research Institute's compliance.

Opinion on the Major Federal Program

In our opinion, Texas Biomedical Research Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of Texas Biomedical Research Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Texas Biomedical Research Institute's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Texas Biomedical Research Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Texas Biomedical Research Institute as of and for the year ended December 31, 2015, and have issued our report thereon dated May 23, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

May 31, 2016

Texas Biomedical Research Institute
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015

Cluster/Federal Agency/Major Subdivision/Federal Grantor	CFDA Name/Project Name	CFDA #	Pass-Through Entity (PTE)	PTE Subaward #	Contract/ Grant Number	Federal Expenditures			Amounts Provided to Subrecipients
						Direct	Pass-Through	Total	
Research and Development									
U.S. Department of Defense									
Office of the Secretary of Defense Defense Threat Reduction Agency	Basic Scientific Research – Combating Weapons of Mass Destruction	12.351	University of Texas at Austin	UTA11-001189	12-04325	\$ 54,019	\$ –	\$ 54,019	\$ 46,187
		12.351			15-04400	–	243,646	243,646	–
	<i>Subtotal Basic Scientific Research – Combating Weapons of Mass Destruction</i>					54,019	243,646	297,665	46,187
Department of Defense	Research on Chemical and Biological Defense	12.360			12-04352	2,019,722	–	2,019,722	–
	<i>Subtotal Research on Chemical and Biological Defense</i>					2,019,722	–	2,019,722	–
Department of Defense	InVitro and InVivo Characterization of Filoviruses Through the Exploration of Various Vaccine Candidates	12.UNKNOWN			15-04529	880,983	–	880,983	–
	InVitro and InVivo Characterizations of Alphaviruses	12.UNKNOWN			15-04548	335,631	–	335,631	–
	Texas Biomed Filovirus VLP Efficacy GP/NHP	12.UNKNOWN	Battelle Memorial Institute	PO#US001-0000341257	12-04364	–	(98,177)	(98,177)	–
	<i>Subtotal</i>					1,216,614	(98,177)	1,118,437	–
TOTAL Office of the Secretary of Defense						3,290,355	145,469	3,435,824	46,187
U.S. Army Medical Command U.S. Army Medical Research Acquisition Activity	Military Medical Research and Development	12.420	Henry M. Jackson Foundation	798196	13-04423	–	248,166	248,166	–
	<i>Subtotal Military Medical Research and Development</i>					–	248,166	248,166	–
TOTAL U.S. Army Medical Command						–	248,166	248,166	–
TOTAL U.S. Department of Defense						3,290,355	393,635	3,683,990	46,187
U.S. Department of Health and Human Services									
Office of the Secretary Office of the Assistant Secretary for Preparedness and Response	Biomedical Advanced Research and Development Authority (BARDA), Biodefense Medical Countermeasure Development	93.360	IIT Research Institute	144-0-2378-001-RL	15-04522	–	495,966	495,966	–
		93.360	IIT Research Institute	144-0-2378-001-RL	15-04537	–	1,099,253	1,099,253	–
	<i>Subtotal Biomedical Advanced Research and Development Authority (BARDA), Biodefense Medical Countermeasure Development</i>					–	1,595,219	1,595,219	–
TOTAL Office of the Secretary						–	1,595,219	1,595,219	–
National Institute of Health National Institute of Environmental Health Sciences	Environmental Health	93.113	Johns Hopkins University Bloomberg School of Public Health	2001669755	14-04367	–	9,198	9,198	–
		93.113	Johns Hopkins University Bloomberg School of Public Health	2001669755	15-04367	–	31,037	31,037	–
		93.113	Johns Hopkins University Bloomberg School of Public Health	PO#2002698260	15-04543	–	30,985	30,985	–
	<i>Subtotal Environmental Health</i>					–	71,220	71,220	–

Texas Biomedical Research Institute
Schedule of Expenditures of Federal Awards (continued)
Year Ended December 31, 2015

Cluster/Federal Agency/Major Subdivision/Federal Grantor	CFDA Name/Project Name	CFDA #	Pass-Through Entity (PTE)	PTE Subaward #	Contract/ Grant Number	Federal Expenditures			Amounts Provided to Subrecipients
						Direct	Pass-Through	Total	
Research and Development (continued)									
U.S. Department of Health and Human Services (continued)									
National Institute of Health (continued)									
National Institute of Dental and Craniofacial Research	Oral Diseases and Disorders Research	93.121			14-04442	\$ 591,439	\$ -	\$ 591,439	\$ 81,071
		93.121			15-04442	220,425	-	220,425	66,286
	Subtotal Oral Diseases and Disorders Research					811,864	-	811,864	147,357
National Human Genome Research Institute	Human Genome Research	93.172			13-04410	538,661	-	538,661	163,754
		93.172	University of North Carolina	5-33727	14-04436	-	9,088	9,088	-
		93.172	University of North Carolina	5033727	15-04436	-	9,334	9,334	-
	Subtotal Human Genome Research					538,661	18,422	557,083	163,754
National Institute of Mental Health	Mental Health Research Grants	93.242			14-01496	87,341	-	87,341	-
		93.242			14-04232	11,880	-	11,880	-
		93.242			14-04298	58,746	-	58,746	-
		93.242			15-04298	10,315	-	10,315	-
		93.242			13-04370	106,971	-	106,971	106,971
		93.242	NorthShore University HealthSystem Research Institute		14-04372	-	37,673	37,673	-
	Subtotal Mental Health Research Grants					275,253	37,673	312,926	106,971
National Institute of Biomedical Imaging and Bioengineering	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	University of Maryland	PO#SR00002458	14-04376	-	69,677	69,677	-
	Subtotal Discovery and Applied Research for Technological Innovations to Improve Human Health					-	69,677	69,677	-
NIH Office of the Director	Trans-NIH Research Support	93.310			15-03500-182	21,272	-	21,272	-
		93.310			12-04356	(39,985)	-	(39,985)	-
	Subtotal Trans-NIH Research Support					(18,713)	-	(18,713)	-
NIH Office of the Director	Research Infrastructure Programs	93.351			14-03500	2,698,762	-	2,698,762	8,128
		93.351			15-03500	5,146,972	-	5,146,972	13,644
		93.351			15-04524	13,285	-	13,285	-
		93.351			14-01117	910,678	-	910,678	-
		93.351			15-01117	1,276,552	-	1,276,552	-
		93.351			12-04280	14,990	-	14,990	-
		93.351			14-04304	344,836	-	344,836	-
		93.351			15-04304	184,829	-	184,829	-
		93.351	University of Texas Health Science Center at San Antonio	130500/130499	14-04269	-	3,363	3,363	-
		93.351	University of Texas Health Science Center at San Antonio	151576/151575	14-04362	-	(1,985)	(1,985)	-
		93.351	University of Massachusetts, Amherst	14 007879 B 00	14-04434	-	36,657	36,657	-
		93.351	University of Texas Health Science Center at San Antonio	156463/156462	14-04476	-	36,403	36,403	-
		93.351	The Regents of the University of California, San Francisco	8313sc	14-04495	-	252,132	252,132	-
		93.351	The Regents of the University of California, San Francisco	8313sc	15-04495	-	129,805	129,805	-
		93.351	University of Wyoming	1002740A-TBRI	15-04504	-	256,334	256,334	-
		93.351	University of Colorado Denver	FY16.745.001	15-04540	-	80,260	80,260	-
	Subtotal Research Infrastructure Programs					10,590,904	792,969	11,383,873	21,772

Texas Biomedical Research Institute
Schedule of Expenditures of Federal Awards (continued)
Year Ended December 31, 2015

Cluster/Federal Agency/Major Subdivision/Federal Grantor	CFDA Name/Project Name	CFDA #	Pass-Through Entity (PTE)	PTE Subaward #	Contract/ Grant Number	Federal Expenditures			Amounts Provided to Subrecipients
						Direct	Pass-Through	Total	
Research and Development (continued)									
U.S. Department of Health and Human Services (continued)									
National Institute of Health (continued)									
National Cancer Institute	Cancer Treatment Research	93.395			14-04398	\$ 86,998	\$ -	\$ 86,998	\$ -
	<i>Subtotal – Cancer Treatment Research</i>					86,998	-	86,998	-
National Heart, Lung, and Blood Institute	Cardiovascular Diseases Research	93.837			13-04241	56,845	-	56,845	-
		93.837			14-04343	41,901	-	41,901	-
		93.837			14-04407	228,041	-	228,041	-
		93.837			15-04407	304,560	-	304,560	-
		93.837			14-04417	189,132	-	189,132	-
		93.837			15-04417	155,038	-	155,038	-
	<i>Subtotal Cardiovascular Diseases Research</i>					975,517	-	975,517	-
National Institute of Arthritis and Musculoskeletal and Skin Diseases	Arthritis, Musculoskeletal and Skin Diseases Research	93.846			13-04195	48,491	-	48,491	-
		93.846			14-04297	315,208	-	315,208	189,657
		93.846	Southwest Research Institute	1418GC0001	14-04432	-	194,937	194,937	-
		93.846	Southwest Research Institute	1418GC0001	15-04432	-	42,141	42,141	-
		93.846	Southwest Research Institute	H99062R1	15-04532	-	79,972	79,972	-
	<i>Subtotal Arthritis, Musculoskeletal and Skin Diseases Research</i>					363,699	317,050	680,749	189,657
National Institute of Diabetes and Digestive and Kidney Diseases	Diabetes, Digestive and Kidney Diseases Extramural Research	93.847			14-04242	250,138	-	250,138	7,214
		93.847			14-04318	185,059	-	185,059	9,806
		93.847			14-04421	208,499	-	208,499	35,189
		93.847	Baylor College of Medicine	PO#5600617530	13-01463	-	3,704	3,704	-
		93.847	University of North Carolina	5-34514	14-04435	-	189,320	189,320	-
		93.847	University of North Carolina	5034514	15-04435	-	86,855	86,855	-
		93.847	University of North Carolina	5102861	15-04570	-	860	860	-
	<i>Subtotal Diabetes, Digestive, and Kidney Diseases Extramural Research</i>					643,696	280,739	924,435	52,209
National Institute of Neurological Disorders and Stroke	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Texas Health Science Center at San Antonio	156125/155979	15-04465	-	13,530	13,530	-
	<i>Subtotal Extramural Research Programs in the Neurosciences and Neurological Disorders</i>					-	13,530	13,530	-

Texas Biomedical Research Institute
Schedule of Expenditures of Federal Awards (continued)
Year Ended December 31, 2015

Cluster/Federal Agency/Major Subdivision/Federal Grantor	CFDA Name/Project Name	CFDA #	Pass-Through Entity (PTE)	PTE Subaward #	Contract/ Grant Number	Federal Expenditures			Amounts Provided to Subrecipients
						Direct	Pass-Through	Total	
Research and Development (continued)									
U.S. Department of Health and Human Services (continued)									
National Institute of Health (continued)									
National Institute of General Medical Sciences	Biomedical Research and Research								
	Training	93.859			14-01334	\$ (3,143)	\$ -	\$ (3,143)	\$ -
		93.859			14-04477	392,305	-	392,305	71,049
		93.859			15-04477	341,858	-	341,858	45,293
	Subtotal Biomedical Research and Research Training					731,020	-	731,020	116,342
	Child Health and Human Development								
	Extramural Research	93.865	The University of Texas Medical Branch	N/A	14-01408	-	2,062	2,062	-
		93.865	The Board of Trustees						
			University of Illinois	2012-06136-03-01 DT	14-04439	-	28,182	28,182	-
		93.865	The Board of Trustees						
			University of Illinois	2012-06136-03-02 KM	15-04439	-	54,025	54,025	-
		93.865	University of Texas Health Science						
			Center at San Antonio	155937/155932	14-04454	-	16,893	16,893	-
		93.865	University of Texas Health Science						
			Center at San Antonio	155941/155932	14-04455	-	(63,785)	(63,785)	-
		93.865	University of Wyoming	1002696-TBRI	15-04511	-	141,875	141,875	-
		93.865	University of Wyoming	1002696-TBRI	15-04512	-	184,111	184,111	-
		93.865	University of Wyoming	1002696-TBRI	15-04513	-	59,819	59,819	-
	Subtotal Child Health and Human Development Extramural Research					-	423,182	423,182	-
National Institute on Aging	Aging Research	93.866	Emory University	T360102	14-04527	-	37,355	37,355	-
	Subtotal Aging Research					-	37,355	37,355	-
National Eye Institute	Vision Research	93.867			14-04471	5,770	-	5,770	(3,354)
		93.867	Oregon Health & Science University	1001660_TXB	14-04337	-	384	384	-
	Subtotal Vision Research					5,770	384	6,154	(3,354)
TOTAL National Institute of Health						19,009,447	4,115,585	23,125,032	910,581
TOTAL U.S. Department of Health and Human Services						19,009,447	5,710,804	24,720,251	910,581
TOTAL RESEARCH AND DEVELOPMENT CLUSTER						22,299,802	6,104,439	28,404,241	956,768
TOTAL EXPENDITURES OF FEDERAL AWARDS						\$ 22,299,802	\$ 6,104,439	\$ 28,404,241	\$ 956,768

See accompanying notes to schedule of expenditures of federal awards.

Texas Biomedical Research Institute

Notes to Schedule of Expenditures of Federal Awards

December 31, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Texas Biomedical Research Institute (Texas Biomed) under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance or OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Texas Biomed has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

3. Reconciliation to Financial Statements

Texas Biomed recognizes revenues from grants and contracts at the time eligible direct and indirect costs are incurred under terms of the awards and recognized as expenditures. Revenue recognized from expenditure of federal awards is reconciled to Texas Biomed's consolidated statement of unrestricted revenues, expenses, and other changes in unrestricted net assets as follows:

Revenues reported in Texas Biomed's consolidated financial statements:	
Grants in aid	\$ 24,373,240
Contracts	16,382,912
	<hr/>
	40,756,152
Less amounts not subject to Uniform Guidance	12,351,911
Total federal award expenditures	<hr/> <hr/>
	\$ 28,404,241

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs

Year Ended December 31, 2015

Section I – Summary of Auditors’ Results

Financial Statements Section

Type of auditor’s report issued (unmodified, qualified, adverse or disclaimer):

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards Section

Internal control over major programs:

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified?

yes none reported

Type of auditor’s report issued on compliance for major programs (unmodified, qualified, adverse or disclaimer):

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of Major Programs

CFDA Number(s)

Name of Federal Program or Cluster

12.351, 12.360, 12.UNKNOWN, 12.420, 93.360, 93.113, 93.121, 93.172, 93.242, 93.286, 93.310, 93.351, 93.395, 93.837, 93.846, 93.847, 93.853, 93.855, 93.HHSN272201500015C, 93.859, 93.865, 93.866, 93.867

Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 852,127

Auditee qualified as low-risk auditee?

yes no

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* requires reporting.

No findings were noted.

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by the 2 CFR 200.516(a) (for example, significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs, and material abuse).

No findings were noted.



Summary Schedule of Prior Audit Findings

Year Ended December 31, 2015

No uncorrected findings were noted in 2014 or 2013.

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